



**Central
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**Tuesday
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PERSIAN GULF:

Situation Report

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Gulf State Reactions

Kuwait will expel five Iranian diplomats as a protest over the Silkworm attacks, according to press reports. A high Saudi official told US Embassy officials that Riyadh will press the Arab states at the coming meetings of the Gulf Cooperation Council (12 September) and the Arab League (20 September) to break relations with Iran if Tehran does not accept the UN call for a cease-fire. UN Secretary General

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Perez de Cuellar will visit Tehran later this week. Riyadh concedes Oman will oppose a break but believes the United Arab Emirates ultimately will sever ties if the visit fails. [REDACTED]

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Comment: The Saudis and the Kuwaitis are positioning themselves to break relations with Tehran but are unlikely to take action before the Arab League meets. Despite Saudi expectations, the UAE will probably not sever ties to Iran. The UAE believes that maintaining extensive trade and joint commercial interests with Iran is the best way to avert Iranian terrorism or a direct confrontation with Iran.

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**Netherlands Naval
Forces To Sail for
Gulf**

The Netherlands Defense Minister reportedly announced yesterday that The Hague will dispatch mine-clearing forces to the Gulf next week. [REDACTED]

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Comment: The sudden decision probably was prompted by Rome's announcement late last week that it was dispatching a naval force to the area. [REDACTED]

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**HONDURAS-
EL SALVADOR:****Rift Over Peace Accord*****Tension is mounting between Tegucigalpa and San Salvador over implementation of the Central American peace plan.*** [redacted]

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According to US Embassy and [redacted]

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[redacted] is interested only in using the peace accord to isolate the Salvadoran guerrillas and views the Sandinista regime in Nicaragua as a problem Honduras will have to face alone. Moreover, Tegucigalpa suspects that San Salvador is dragging its feet over the repatriation of Salvadoran refugees in Honduras. [redacted]

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The Honduran Government feels increasingly isolated by international pressure to implement the peace plan and resents being portrayed as a US lackey, according to the US Embassy. [redacted]

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[redacted] Tegucigalpa intends to shut down support for the anti-Sandinista insurgents by the 7 November deadline unless Managua blatantly fails to comply with the peace accord. [redacted]

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El Salvador is puzzled and concerned by what it perceives as growing Honduran aloofness toward the peace plan, according to the US Embassy. The Salvadorans intend to continue cooperating with Tegucigalpa on refugee issues and on coping with Nicaragua, according to Embassy reporting, and they believe Honduras's distancing itself from the accord may allow the Sandinistas to escape blame if the agreement unravels. [redacted]

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Comment: The Hondurans, who want to avoid being seen as an obstacle to peace, probably will stop aid to the insurgents rather than endure international criticism for derailing the agreement. Without concrete assurances of continued US backing for the rebels, Tegucigalpa may feel compelled to restrict their activities sharply by mid-October. [redacted]

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Honduran criticism of El Salvador probably is an attempt to shift the onus of terminating the anti-Sandinista insurgency and also reflects traditional mistrust between the two countries. Salvadoran President Duarte clearly is most concerned with ending the guerrilla war in his own country. Nonetheless, San Salvador is unlikely to cease cooperating closely with Tegucigalpa on refugee and Nicaraguan affairs. [redacted]

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25X1**ARGENTINA:****Elections Change Political Landscape**

President Alfonsin's Radical Party lost in an upset to the opposition Peronists in Sunday's congressional and gubernatorial elections. The President's policy goals, including constitutional reform and economic stabilization, are unlikely to be carried out during his remaining three years in office.

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The Peronists won nearly 42 percent of the vote—their largest share since the return to democracy in 1983. The Embassy reports the Peronists have won 16 of the 22 governorships and are likely to win another. The Peronist total includes Buenos Aires Province, the country's political power center and home to more than a third of its population. The Radicals retained only 118 of the 129 seats they controlled in the lower house of Congress, and some press reports say several Cabinet ministers will resign. The Peronists now control 107 seats, according to the Embassy. Other parties did not substantially increase their standing. The conservative Union of the Democratic Center won only 5.7 percent of the vote and the leftist Intransigent Party only 2 percent.

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Comment: The Radicals' loss is probably because of the government's poor economic performance and, to a lesser degree, Alfonsin's handling of the human rights issue with the military. The President's policy agenda will almost certainly be stymied, particularly constitutional reform, which would introduce a parliamentary system and allow the President to run for a second consecutive term. Peronist leaders—who favor a debt moratorium and increasing social expenditures—are already demanding changes in economic policy.

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The Peronists, who have suffered from severe factionalism, will now become a more cohesive opposition force under Antonio Cafiero, the new Peronist Governor of Buenos Aires. Cafiero will almost certainly become his party's candidate in the 1989 presidential election. The greater danger, however, is that some extremist groups, particularly within the military, will now perceive the government as seriously weakened and attempt to provoke confrontation to gain their ends.

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25X1**TURKEY:****Early Election Called**

Prime Minister Ozal's call for an early national election and the repeal of the political bans in a national referendum this weekend present Turkey with its most open—and potentially most volatile—election since the military coup of 1980.

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With nearly all the ballots in, it appears that those in favor of lifting the constitutional bans on political activity by approximately 100 precoup politicians would carry the day—but just barely. The latest count gives the “yes” votes 50.16 percent of the total, a majority of less than 100,000 out of 25 million.

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Shortly after the polls closed on Sunday, Ozal surprised most observers by calling for an election in November, one year ahead of schedule. Ozal reportedly favors 8 November, but the press claims his Motherland Party will propose 1 November. Turkish law requires a 90-day interim between the announcement and election, but legislation now before the Grand National Assembly will reduce the waiting period to 45 days. Ozal's majority in the Assembly virtually ensures passage.

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Comment: Ozal, who opposed repeal of the bans, had been outmaneuvered in the weeks before the referendum, letting the opposition portray it as a test of his government's popularity. Momentum on the eve of the plebiscite appeared to be building toward a solid majority in favor of repeal, and Ozal probably called the early election as a way of recapturing the political initiative. His party was also threatened with sizable defections if Ozal waited too long for the next election, and the short waiting period will give the opposition less time to prepare.

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Observers are now reading the surprisingly close result as a victory for Ozal. Turkey's electoral mathematics seem to give the edge to Ozal's party because the party hopes to keep most of the 49.84 percent who voted to retain the bans—with the other 50.16 percent split by the conservative and leftwing opposition. In 1983, Ozal won a clear majority with only 45 percent.

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The lifting of the bans should introduce a note of caution, however. Some previously banned politicians retain a good deal of popularity, and neither they nor their surrogate parties ran in 1983. Ozal remains the country's most popular politician, but there is a chance that his party will gain only a plurality of the seats in parliament. This could open the Pandora's box of Turkish coalition politics, a major factor in the instability of the 1970s. The real test in November could be whether a stable government can emerge from the new political equation.

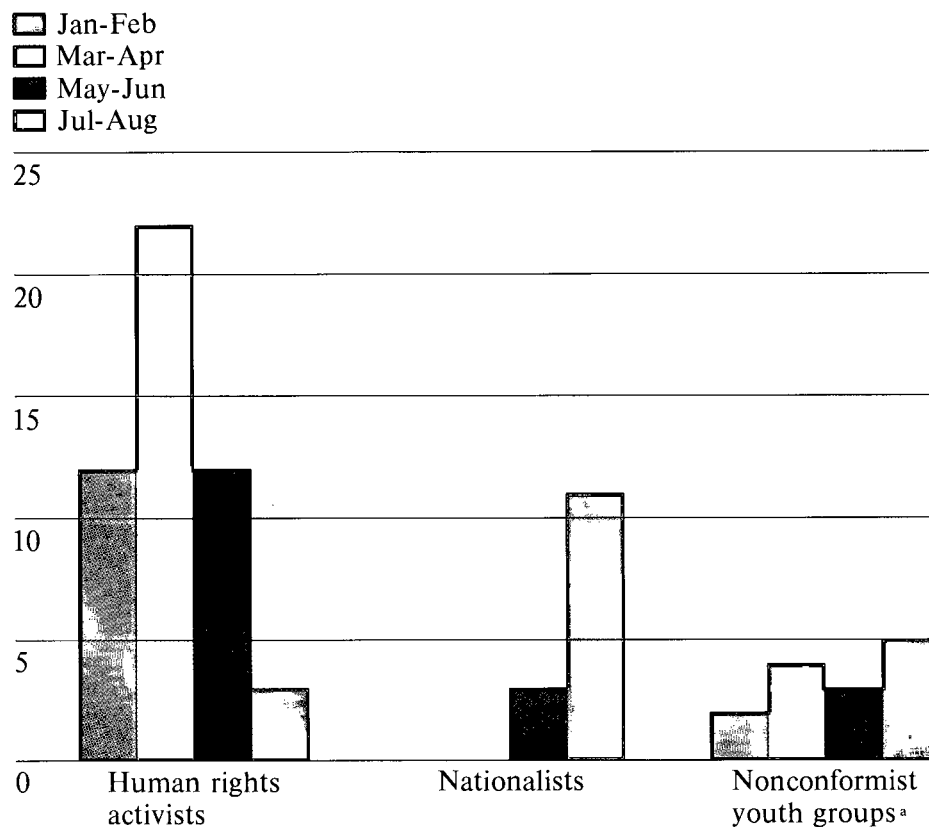
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Demonstrations in Moscow, 1987*Number of events*

^a Figure for nonconformist youth for Jul-Aug would be more than 20 if all public appearances by bands of Hare Krishnas were included.

Increased tolerance of public criticism and decreased use of physical force and arrest against dissenters have emboldened dissatisfied groups to demonstrate. Since 1 January, evidence indicates that there were at least 76 public demonstrations in the capital, falling into three broad categories: refusnik and human rights demonstrations—which have been on the decline—nationalist oriented demonstrations, like Pamyat or the Tatars, or demonstrations by nonconformist or youth gangs—which have both been on the rise.

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USSR:**Tougher Stance on Demonstrations**

The Moscow city government's new "temporary" rules for demonstrations suggest that recent protests by Crimean Tatars and others have alarmed Soviet leaders and led them to set more restrictive limits on unsanctioned political activity.

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The regulations issued Tuesday ban demonstrations near key Moscow governmental and historical sites, including Red Square and the Kremlin. The new rules require citizens to apply for an official permit seven days before holding a demonstration.

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These restrictions are similar to those adopted in Leningrad in early June and in the Baltic republics late last month. Demonstrations in Leningrad declined markedly after the rules were adopted, but in the Baltic the restrictions failed to prevent major demonstrations on the anniversary of the Soviet-German nonaggression pact.

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Comment: The new regulations strongly suggest the leadership's increasing determination to stem unsanctioned activity, even at the cost of appearing to backtrack on General Secretary Gorbachev's commitment to freer public expression. While some groups will almost certainly protest without approval or at banned locations—and more innocuous protest will probably be tolerated—the rules will deter many would-be demonstrators.

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Soviet leaders, including Secretary Ligachev, Gorbachev's de facto deputy, and Leningrad party boss Solovyev have in recent speeches accused demonstrators of exploiting "democratization" for unacceptable purposes. Moscow party boss Yel'tsin, a close Gorbachev ally, has been criticized for his lax treatment of protesters.

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Gorbachev and his supporters recently have appeared defensive about the *glasnost* issue. In July, Gorbachev told media officials that opponents of restructuring are waiting for "someone to make a mistake."

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The regime's image within the USSR probably will not suffer from the introduction of the new restrictions because many ordinary citizens strongly oppose the demonstrations and want firmer action to establish order. Gorbachev may consider international criticism of the crackdown a reasonable price to pay for curtailment of a problem with potentially serious ramifications for him.

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BRAZIL: Uranium Enrichment Capability

President Sarney announced that Brazil has mastered the gas centrifuge uranium enrichment process. He further stated that a pilot plant will soon be completed at the Aramar Experimental Center in Sao Paulo state and that Argentina will begin operation next year of an industrial plant. Previous press reports said the commercial plant will have 10,000 centrifuges. [REDACTED] IPEN and the Navy's nuclear research arm were able to enrich uranium to 1.2 percent late last year, using a limited number of gas centrifuges.

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Comment: The Navy and IPEN probably have reached a level of technical competence that substantiates Sarney's disclosure. The limited number of reported operational centrifuges may cause Brasilia to be hard pressed to complete an industrial complex by 1988; however, a pilot facility is attainable. Despite the seemingly low reported uranium enrichment level, analysis shows a commercial plant of 10,000 centrifuges could produce up to 5,000 kilograms of low-enriched or 110 kg of highly enriched uranium per year. The enriched uranium would not be subject to International Atomic Energy Agency safeguards because Brazil has indigenously developed this technology. [REDACTED]

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BURMA: Surprise Demonetization Spurs Violence

Hundreds of students rioted in Rangoon on Saturday and sporadic outbreaks of antigovernment violence continue throughout Burma in response to an unexpected demonetization of 80 percent of the currency, according to the US Embassy. Only government and military employees have been promised some recompense, leaving the rest of the population virtually penniless. Swift government action closing all schools, cutting communication and transportation links between cities, and increasing security has prevented further violent outbursts.

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Comment: The sudden demonetization follows a government announcement last Wednesday to decontrol crops, which was followed by large-scale currency withdrawals from the Bank of Burma. Believing the withdrawals to be by black marketeers and private traders who planned to buy up supplies of rice, the government responded impulsively, displaying its lack of economic expertise. Replacement currency probably will not be available for at least a week, leaving the population confused and angry. The recent optimism from Socialist Program Party chairman Ne Win's announcement of economic reform has turned into extreme pessimism.

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25X1**USSR: Armenian Party Leader Under Fire**

The Soviet Armenian Republic and party boss Karen Demirchyan, a Brezhnev appointee, have recently come under attack by Moscow for corruption and economic mismanagement. Party leader Gorbachev criticized Demirchyan by name in his June plenum speech—an unprecedented move by this General Secretary—and a *Pravda* editorial late last month blasted Armenia for paying only lip service to Moscow's reform campaign.

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Comment: Gorbachev's anticorruption drive, in full swing against the Central Asian republics, has now gathered force in the Caucasus as well. Four of five Central Asian party first secretaries have been replaced since Gorbachev's accession, and he may be seeking his first such ouster elsewhere to maintain the campaign's momentum. With his denunciation of Demirchyan, the General Secretary put his prestige on the line to compel Armenia and other recalcitrant republics to accept and promote reform. Meanwhile, the stage has been set for a leadership change in Armenia: the local Supreme Soviet chief and almost all the republic's party secretaries have been replaced; any member of this team could move up to take Demirchyan's job. Another possibility would be Soviet Ambassador to Luxembourg Udumyan, a veteran Armenian official who may have worked with Gorbachev in the 1950s and who recently was recalled to the USSR.

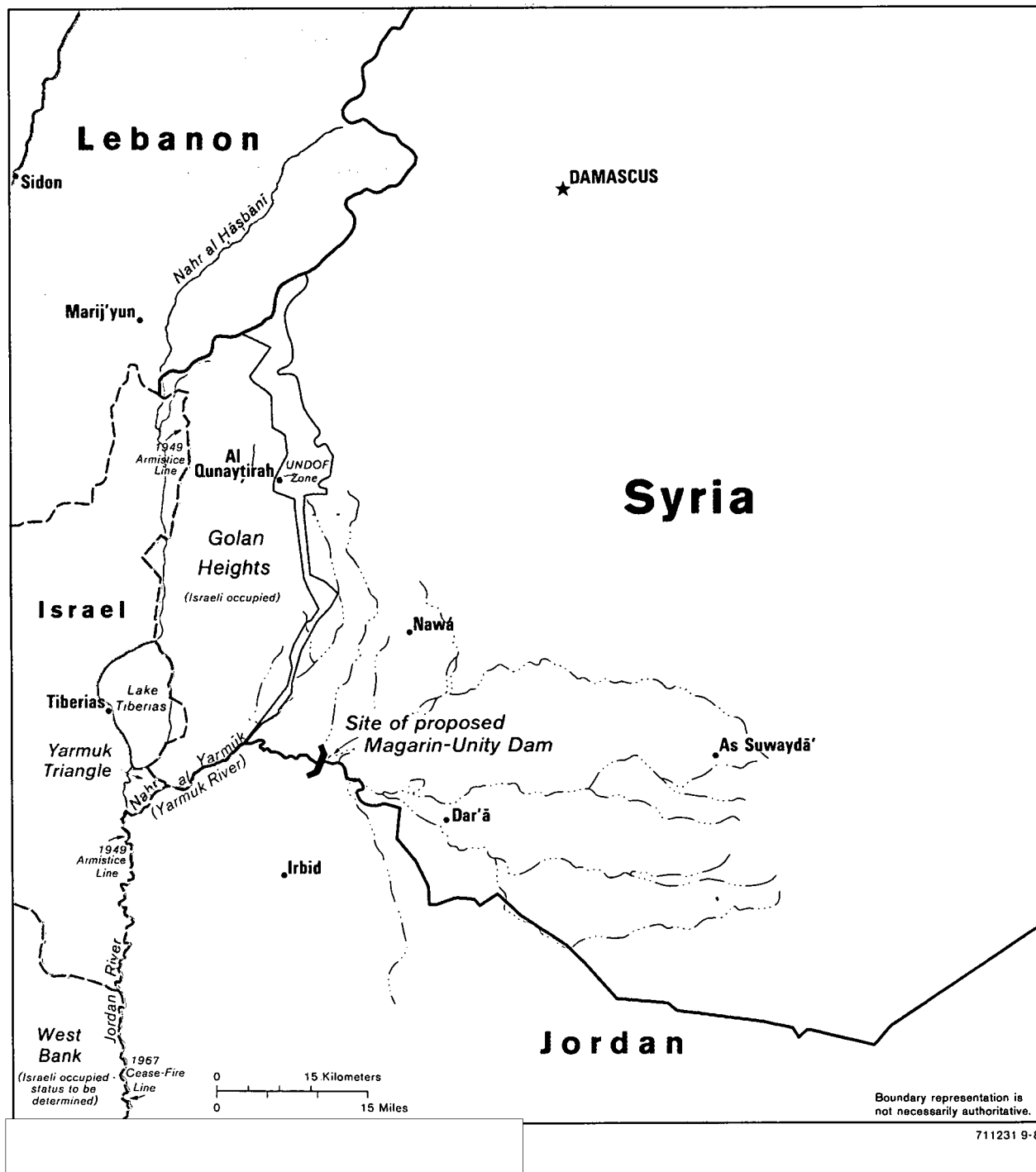
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JORDAN-SYRIA: Maqarin Dam Agreement

Jordan and Syria signed an agreement Thursday allowing Jordan to build the long-delayed Maqarin-Unity Dam on the Yarmuk River between the two countries, according to press reports

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Comment: Although the dam will provide little benefit to Syria, it will alleviate chronic severe water shortages in Jordan's major cities and in its agriculturally important Jordan Valley. The agreement, which follows a 25 June verbal understanding, is probably a reward for Jordanian political cooperation. Jordan is likely to seek Israeli acquiescence, which may prove more difficult. Although Israeli Defense Minister Rabin indicated last month that the dam would probably be built, he reiterated Tel Aviv's insistence on a guaranteed water supply for its Yarmuk Triangle and noted that Israel may demand some of the water for the West Bank.

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25X1**YUGOSLAVIA: Expanding Debt Moratorium**

Belgrade may soon ask Western creditor governments for a delay on \$190 million in debt principal payments due later this year and request that banks postpone a \$90 million payment, according to the US Embassy. Yugoslav officials have asked several Western governments about the advisability of such actions, arguing that the payments would seriously deplete foreign exchange reserves and endanger the country's economic recovery. Bank creditors earlier this year agreed to postpone \$240 million in principal payments due in midsummer, citing temporary cash-flow problems, and the Embassy reports that Belgrade intends to open debt refinancing negotiations with all creditors in mid-October.

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Comment: Belgrade probably lacks sufficient cash reserves to meet its forthcoming obligations and believes an agreement now to suspend payments is preferable to another surprise confrontation with creditors later. Although Western creditors would dislike a further standstill, many probably are resigned to such a move despite Belgrade's earlier denials of major financial problems. In the rescheduling talks, creditors will insist on some form of tighter external oversight—such as a return to an IMF standby. While some Yugoslavs have recently told US officials that there is a growing realization that a new standby may be necessary, Premier Mikulic remains adamantly opposed to any strict oversight.

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In Brief

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Europe		West Germany viewing release of hostage as payoff for courting Iran and Syria . . . apparently assured leniency for accused terrorist Hammadi . . . release likely to help Christian Democrats in two state elections on Sunday.	X 25X1 25X1
East Asia		Philippine armed forces Chief of Staff Ramos releasing hundreds of rebel soldiers to return to duty . . . includes those least involved or tricked into participating . . . reflects concern over further military unhappiness.	X 25X1 25X1
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Africa		Burundi's new leader, Major Buyoya, named 30-man ruling council on Sunday . . . pledged to ease restrictions on church according to US Embassy . . . former President Bagaza now in Uganda seeking to return as private citizen.	25X1 25X1 25X1
Americas		Nicaraguan Indian rebels, southern front insurgents recently received total of six Redeye missiles, . . . first delivery of surface-to-air missiles to these groups . . . new recipients have few men trained in use.	25X1 25X1 25X1
Middle East		TASS reports Iranian Deputy Foreign Minister met ^{on 7 Sept} yesterday in Moscow with Soviet First Deputy Foreign Minister . . . second visit this summer . . . probably discussed trade, Gulf war . . . may hope to preempt Arab League delegates due soon.	25X1 25X1
		US Embassy reports Turkey may establish "interests sections" for Iran , Iraq later this month when both remove skeletal embassy staffs from Tehran , Baghdad . . . Prime Minister Ozal previously offered to mediate Gulf war.	X 25X1 25X1
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Staff Cuts in Soviet Industry and Transportation

- The Soviet press reports that 10 Soviet railways introduced a prototype of the wage reform and cut 125,000 workers in 1986.
- According to a Soviet labor official, 10 to 15 percent of the work force has been cut in some sectors of industry.
- Another official claimed a reduction of 70,000 in the number of people employed in Soviet industry during the first half of 1987. That figure probably includes normal attrition.
- In Azerbaijan, 5,000 workers have been released from oil and gas enterprises and thousands more from local railroads.
- In Turkmenistan, 6,000 people have been released from the Ministry of Railways and other ministries.

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Special Analysis**USSR:****Layoffs in Industry**

Moscow is pushing overmanned industrial enterprises to lay off workers to improve efficiency. The Soviet press says thousands of workers have been released already, and many more layoffs are scheduled. Moscow insists that layoffs in industry will not bring unemployment because other jobs are available, but Soviet workers, long accustomed to job security, will resent the dislocations. Some enterprises may have difficulty meeting production targets with fewer workers.

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A wage reform that took effect on 1 January is forcing enterprises to cut staff. Under the measure, the state is dictating higher pay scales but not allotting extra funds to cover the pay increases. Many enterprises have little choice but to cut staff to finance the higher pay. Some layoffs have occurred already, and, according to one Soviet estimate, 3.5 million workers may be released.

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Leadership Assurances

Soviet leaders have sought to reassure the public that unemployment will not be permitted. Both General Secretary Gorbachev and his de facto deputy, Secretary Ligachev, have insisted publicly that a "socialist" economy must guarantee full employment. Gorbachev pledged at the Central Committee plenum in June that job placement and retraining programs would be expanded to speed placement of workers in new jobs.

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Although Soviet leaders stress that workers released from industry are needed elsewhere, most of the vacancies would be hard-to-fill jobs in the low-paying services sector, involve night shifts, or require relocation to the climatically severe regions of Siberia and the Far East. If staff cuts are carried out on the proposed scale, many laid-off workers would have to lower their expectations and take less desirable jobs.

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Other aspects of wage reform that are particularly unpopular with blue-collar workers include greater wage differentiation and fewer and smaller bonuses. Under the reform, raises for white-collar workers are substantially greater than those for blue-collar workers.

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Dissatisfaction with the new system has surfaced in letters to a Soviet journal. Some workers—accustomed to an egalitarian wage system—charge that they have been given short shrift and call the new wage system “social injustice.” Others complain that enterprises are severely cutting bonuses and demoting workers to pay for the new system. Many feel that they are working harder for little gain or even for a loss in earnings.

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Outlook

Job security and an egalitarian wage system have contributed to a long-term erosion of work discipline in the USSR. In the past, Moscow was unwilling to risk reform in this area. Gorbachev has shown a new willingness to address these sensitive issues. Greater wage differentiation and an end to the guaranteed job and the automatic bonus might go a long way toward improving worker motivation and effort.

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The leadership faces a tough political challenge as it tries to implement these changes without disaffecting blue-collar workers, who have much to lose and little to gain. There have already been cases of work stoppages related to dissatisfaction with increased quality control requirements. ~~Party secretary Dobrynin told a US Embassy official that~~ Moscow had to send top party instructors to several factories to “educate” workers and to head off strikes.

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Staff cuts will have to be managed carefully to avoid disrupting production. Some Soviet enterprises can make initial staff cuts and raise productivity by organizing more efficiently and combining jobs, but eventually they will need better equipment to continue such gains. The timely arrival and assimilation of equipment that can replace workers will be critical. If current problems with quality, product mix, and delivery schedules in the machine-building sector persist, enterprises will find it increasingly difficult to do more work with fewer people.

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